

# **FLEXIBLE SPENDING OF TANF AND STATE MOE FUNDS**

Prepared for the  
**Legislative Finance Committee**  
by

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## EXECUTIVE SUMMARY

### Introduction

The implementation of the final regulations for the Temporary Assistance for Needy Families Block Grant (TANF) resulted in changes in how TANF and state maintenance of effort (MOE) funds may be spent while maintaining compliance with federal regulations. This report discusses innovative and creative uses of TANF and state MOE funds that are being used in other states and possible ways that TANF or state MOE funds could be used in Montana. Some of these uses would reduce general fund expenditures, while others would increase expenditures of federal TANF funds.

### Background

Final TANF regulations provide states with broad flexibility in the use of TANF and state MOE funds. However, this flexibility is diminished by the provision that TANF reserve or carryover funds may only be used for services (and the related administrative costs) meeting the federal definition of assistance. The final federal regulations narrowly define assistance to include only those items which provide the family with basic needs such as food, clothing, and shelter. Provision of items which meet the federal definition of assistance carries with it all the federal time line, work participation, and etc. requirements. Provision of items which meet the definition of non-assistance does not carry the same federal requirements. Understanding the definition of assistance, non-assistance and the restriction on the use of carryover funds are key concepts from which to begin the discussion and understanding of flexible uses of TANF and state MOE funds.

The final regulations remove and/or clarify many of the restrictions which were in the proposed rules. States feared that some creative uses of TANF and state MOE funds would lead to penalties because of restrictions contained in the proposed rules. The clarifications of restrictions and penalties made by the final regulations make use of separate state programs (SSP) for state MOE spending feasible. The regulations also support use of TANF funds for services not defined as assistance but which support work and self-sufficiency objectives for families leaving welfare.

The TANF block grant was authorized at the federal level through federal fiscal 2002 (September 30, 2002). Reauthorization at the current level of funding seems unlikely if states fail to expend the funds allocated to them. Thus, it seems critical that state spending of TANF funds is maximized prior to congressional reauthorization of TANF Block Grants.

Additionally Montana's welfare reform program Families Achieving Independence in Montana (FAIM) is reaching critical stages. The FAIM program became Montana's TANF program and TANF was implemented statewide beginning in February 1997. In February 2002 most FAIM recipients will reach their lifetime maximum of 60 months of assistance and will no longer be eligible. Those families remaining on assistance face the most barriers to employment and self-sufficiency. The Department of Public Health and Human Services (DPHHS) is currently in the process of developing FAIM Phase II, the next steps in Montana's welfare reform program.

The expenditure of current year block grant funds for new and creative uses which do not meet the federal definition of assistance must be coordinated with the plan to fund assistance payments. Some of the key decisions impacting the availability of TANF funds include:

1. the amount of TANF funds set-aside in the reserve or carryover funds for use in the event of an economic downturn that increases the need for assistance;
2. whether or not funding of non-assistance and other services is an ongoing need or a one-time use of TANF funds;
3. the amount of current year TANF grant that should remain unexpended so the funds become carryover funds; and,
4. whether or not assistance payments (all or a portion) are funded from the current year grant.

The DPHHS estimates that on June 30, 2000 \$11 million of federal TANF funds will be carryover funds from prior years. The 1999 Legislature directed that \$8.35 million be maintained in a "TANF reserve" in the event caseloads increased above the fiscal 1998 level or in the event the DPHHS had difficulty attaining the federally mandated work participation rates. The \$11 million, which is projected to exist at the end of fiscal 2000, is \$2.65 million greater than the "TANF reserve" amount appropriated by the 1999 Legislature.

DPHHS also estimates that on June 30, 2000 \$38 million of federal fiscal 2000 grant funds will be unexpended. However, DPHHS intends to transfer \$12 million of the federal fiscal year 2000 grant to the Childcare Development Fund (CCDF) and Social Services Block Grant (Title XX) during the first quarter of state fiscal 2001. A summary of estimated fiscal 2000 federal TANF and state MOE expenditures is contained in Table 1.

There will be adequate carryover funds to provide for assistance costs through fiscal 2001 if:

1. \$38 million of the federal fiscal 2000 grant is unexpended as of June 30, 2000;
2. \$12.0 million of the federal fiscal 2000 grant is transferred to CCDF and Title XX as planned by DPHHS;
3. \$700,000 of Title XX funds remained unexpended by the Child and Family Services Division (CFSD);
4. assistance payments are funded from carryover funds at the fiscal 2000 level of \$22.0 million; and
5. a "TANF reserve" of \$8.35 million is maintained (see Table 2).

In fiscal 2002 carryover funds are projected to be \$14.6 million less than the amount needed to fund assistance costs. Possible courses of action which may be taken to provide funding for assistance costs in fiscal 2002 include:

1. a portion of the federal fiscal 2001 grant maybe left unexpended so that it becomes carryover funds that can be used to fund assistance payments;
2. a portion of the federal fiscal 2002 grant (current year grant funds) can be used to fund assistance costs; or
3. "TANF reserve" funds could be used to fund assistance payments.

Because the TANF Block Grant authorization expires at the end of federal fiscal 2002 (September 30, 2002) it might be beneficial to expend the “TANF reserve” funds for assistance in fiscal 2002 so that no TANF funds remain unexpended at the end of the block grant authorization

If expenditures and transfers of current year federal TANF funds are maintained at the level planned by DPHHS for fiscal 2000 and assistance costs are funded by carryover funds, \$19.5 million of the \$44 million in federal funds will be expended leaving \$24.5 million in federal fiscal 2001 block grant funds available for expenditure (Table 3). The amount of federal funds available for expenditure in fiscal 2002 is dependent upon what actions are implemented to fund assistance costs for fiscal 2002.

## Possible New Uses for TANF or State MOE Funds

Innovation and creativity are the buzzwords when discussing TANF or state MOE expenditures. Among the innovative and creative use of TANF and state MOE funds discussed in this report are:

1. use of TANF funds to provide services such as home visitor and preventive services, foster care payments for those caring for a relative’s child, adoption subsidies, and some substance abuse services which historically have been funded predominantly by general fund;
2. use of TANF funds to support programs which reinforce work by providing services such as problem resolution, workplace adjustment skills, mentoring, vocational and occupations training, refundable earned income tax credits, and services for learning disabled individuals;
3. use of TANF or state MOE funds to provide services such as job training, employment counseling and other services to a non-custodial parent residing in state, which enable the non-custodial parent to reconnect with their children and provide child support; and,
4. use of Mental Health Service Plan (MHSP) expenditures toward state MOE requirements or the use of TANF funds to provide MHSP services.

The Legislative Finance Committee (LFC) may wish to provide staff and DPHHS with suggested priorities for development of programs and services funded by TANF and state MOE funds. It is particularly important that statutory changes needed so that legislative priorities may be implemented be identified and that legislation is developed so that the 2001 Legislature may take action on necessary statutory changes. Additionally, it is important these policy priorities are included in the budgeting process.

## Introduction

The broad flexibility and innovation possible under the final TANF rules are well summarized in the following paragraph, which comes from the federal Department of Health and Human Services publication, titled Helping Families Achieve Self-Sufficiency.

“ The TANF program provides extraordinary flexibility for funding a wide variety of employment and training activities, supportive services, and benefits that will enable clients to get a job, keep a job, and improve their economic circumstances. TANF funds are much more

flexible than funds under the prior entitlement programs. **So States should start with the assumption that they may use these funds in innovative ways to achieve the critical goals laid out in TANF statute.**<sup>1</sup>(emphasis included in publication)

## Background

The following sections provide background information about federal TANF regulations which impact how TANF and state MOE funds may be spent. These sections contain basic program criteria and definitions including the purpose of TANF as spelled out in federal law.

### TANF: Purposes

The expenditure of TANF funds must be reasonably calculated to achieve 1 of the 4 purposes of TANF, which are:

- “1. to provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives;
2. to end the dependence of needy parents on government benefits by promoting job preparation, work and marriage;
3. to prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and
4. to encourage the formation and maintenance of two-parent families.”<sup>2</sup>

TANF funds are to be used for services to families. If funds are being used to meet the first or second purposes of TANF, they must be used to serve needy families. Eligibility criteria based upon income must define “needy family” for the purpose of providing the various services funded under the TANF program. If services are being provided in order to fulfill the third or fourth purpose of TANF, the services can be provided to families regardless of financial need, but objective criteria must be used to determine eligibility for services.<sup>3</sup>

### Assistance Versus Non-Assistance

Whether or not a benefit or service falls within the federal definition of assistance or non-assistance has a great number of ramifications when determining how best to fund the benefit or service. If TANF or state MOE funds are used to pay for services which meet the federal definition of “assistance”, federal requirements including time limits, work participation, child support enforcement assignment, and data collection apply. If the services provided are considered to be “non assistance”, federal requirements do not apply.

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<sup>1</sup> “ Helping Families Achieve Self-Sufficiency”, Health and Human Services, Administration for Children and Families, page ii, no date.

<sup>2</sup> Personal Responsibility and Work Opportunity Reconciliation Act of 1996, (PRWORA) Section 401 (a) (1) through 401(a) (4).

<sup>3</sup>“ Helping Families Achieve Self-sufficiency”, Health and Human Services, Administration for Children and Families, page 11, no date.

Assistance includes:

1. items that meet basic needs such as food, clothing, shelter, personal care, and incidentals; and
2. childcare, transportation and supports for families that are not (emphasis added) employed.

Assistance does not include:

1. childcare, transportation, and other supportive services provided to families that are (emphasis added) employed;
2. nonrecurrent, short-term benefits, which: are designed to deal with a specific crisis situation or episode of need; are not intended to meet recurrent or ongoing needs; and will not extend beyond four months;
3. work subsidies;
4. refundable earned income tax credits;
5. contributions to, and distributions from, Individual Development Accounts;
6. education or training, including tuition assistance;
7. other services such as counseling, case management, peer support, childcare information and referral, transitional services, job retention, job advancement and other employment-related services that do not provide basic income support; and
8. transportation benefits provided under a Job Access or Reverse Commute project to an individual who is not otherwise receiving assistance.<sup>4</sup>

This narrower definition of assistance makes it easier for states to use TANF funds for creative initiatives to help low-income families. However, **this narrower definition also increases the level of restriction on the use of reserve or carryover funds** (emphasis added). Carryover funds may only be used for items which meet the definition of “assistance” and for the administrative costs directly associated with providing such assistance.

## State Maintenance of Effort (MOE) Funds/TANF Regulations

In order to receive TANF funds, states are required to continue to spend state and local funds at a level equal to 80 percent of the state and local dollars spent in federal fiscal 1994 or 75 percent<sup>5</sup> if the state meets both the all family and two parent family work participation rates. Montana budgeted the state MOE at 77 percent or approximately \$15.5 million.

State MOE funds can be segregated or not segregated in three different ways, which impact how the funds may be spent, and which TANF regulations apply. If state MOE funds are commingled with federal TANF funds, state MOE funds essentially act as federal TANF dollars and take on the same attributes as federal TANF dollars. The federal time lines, work participation rates and restrictions prohibiting expenditures for medical services apply.<sup>6</sup>

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<sup>4</sup> Ibid, page 25 - 26.

<sup>5</sup> Ibid, page iii.

<sup>6</sup> “Challenges, Resources, and Flexibility: Using TANF Block Grant and State MOE Dollars” Jack Tweedie, Dana Reichert and Sheri Steisel, National Conference of State Legislatures, page 5, September 1999.

State MOE may be segregated from federal TANF dollars and used in the TANF program. In this case the state funds do not take on the same attributes as federal TANF dollars. State MOE spent in this category is not restricted by federal TANF time lines nor is it prohibited from being used for medical services. However, work participation rates do apply.<sup>7</sup>

State MOE funds may be spent in a separate state programs (SSP) (separate from TANF program). State MOE funds spent in an SSP are not subject to federal TANF restrictions such as time limits, child support enforcement cooperation, work participation rates or data reporting, and the use of these funds for medical services is not prohibited. If a state has an SSP and wants to be eligible for a high performance bonus or receive work participation or caseload reduction credits, the state must collect data if the benefits or services in SSP fall within the TANF definition of assistance.

For a concise summary of important facts about how the various categories of TANF and state MOE funds may be spent, please refer to appendix A.

## Available Funds

The expenditure of current year block grant funds for new and creative uses which do not meet the federal definition of assistance must be coordinated with the plan to fund assistance payments. Some of the key decisions impacting the availability of TANF funds include:

1. the amount of TANF funds set-aside in the reserve or carryover funds for use in the event of an economic downturn that increases the need for assistance;
2. whether or not funding of non-assistance and other services is an ongoing need or a one-time use of TANF funds;
3. the amount of current year TANF grant that should remain unexpended so the fund become carryover funds; and,
4. whether or not assistance payments (all or a portion) are funded from the current year grant.

The DPHHS estimates that on June 30, 2000 \$11 million of federal TANF funds will be carryover funds from prior years. The 1999 Legislature directed that \$8.35 million be maintained in a "TANF reserve" in the event caseloads increased above the fiscal 1998 level or in the event the DPHHS had difficulty attaining the federally mandated work participation rates. The \$11 million, which is projected to exist at the end of fiscal 2000, is \$2.65 million greater than the "TANF reserve" amount appropriated by the 1999 Legislature.

DPHHS also estimates that on June 30, 2000 \$38 million of federal fiscal 2000 grant funds will be unexpended. However, DPHHS intends to transfer \$12 million of the federal fiscal year 2000 grant to CCDF and Title XX during the first quarter of state fiscal 2001. A summary of estimated fiscal 2000 federal TANF and state MOE expenditures is contained in Table 1.

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<sup>7</sup> Ibid, page 5.

**Table 1**  
**Summary of Projected Federal TANF**  
**and State MOE Expenditures**  
**Fiscal 2000**  
**Based Upon Information Provided by DPHHS**

Service or Benefit	State Fiscal 2000		
	Prior Year	FY 2000	
	Federal TANF Grants	Federal TANF Grant	General Fund
Cash Assistance	\$ 21,230,000		\$ 1,805,695
Non Assistance (note 2)	1,447,000		
Transfer to CCDF (note 1)	17,500,000		
Transfer to Title XX (note 1)	3,850,000		
Transportation	225,910		
Administrative Cost (cost allocation estimate)		\$ 4,000,000	
Child Support Liaisons		350,000	
Employment Barriers		40,000	
Adult Education		125,000	
Chemical Dependency		40,000	
Energy Assistance		875,000	
Expended by Child and Family Services (CFSD) (note 4)		600,000	
FAIM Supportive Services			1,100,000
FAIM Employment and Training (note 3)			7,321,382
MOE from SSR Benefits			389,800
Other Benefits (Tribal Transition)			433,700
FAIM Community Service Program			380,000
Child Care MOE			1,313,990
State Administration			1,252,684
County Administration			771,095
State Systems			600,000
County Systems			200,000
<b>Total Fiscal 2000 Projected Expenditures</b>	<b>\$ 44,252,910</b>	<b>\$ 6,030,000</b>	<b>\$ 15,568,346</b>

Notes:

Note 1: Funds were transferred to Childcare Development Fund (CCDF) and the Social Services Block Grant (Title XX) from prior federal fiscal year grants before the final TANF rules were effective October 1, 1999. The Final TANF rules prohibit states from transferring carryover funds to CCDF or Title XX. Thus, this action taken by the department in fiscal 2000 is no longer possible.

Note 2: These are not expenditures of carryover funds, rather they are expenditures of federal fiscal 1999 federal grant funds during the July - September quarter of state fiscal 2000.

Note 3: This amount includes funding for employment specialist, enhances employment, construction trades and food banks were funded by TANF funds in the 2001 biennium budget.

Note 4: Based upon information received from DPHHS, CFSD is allocated \$2.8 million of federal TANF funds for foster care benefits. CFSD estimates it will spend \$600,000 of this allocation.

There will be adequate carryover funds to provide for assistance costs through fiscal 2001 if:

1. \$38 million of the federal fiscal 2000 grant is unexpended as of June 30, 2000;
2. \$12.0 million of the federal fiscal 2000 grant is transferred to CCDF and Title XX as planned by DPHHS;
3. \$700,000 of Title XX funds remained unexpended by the Child and Family Services Division (CFSD);
4. assistance payments are funded from carryover funds at the fiscal 2000 level of \$22.0 million; and
5. a "TANF reserve" of \$8.35 million is maintained (see Table 2).

<b>Table 2</b> <b>Projection of TANF Carryover Funds</b> <b>Assuming Carryover Funds are used for Assistance Costs</b> <b>Fiscal 2001 and Fiscal 2002</b>	
<u>Description</u>	<u>Amount</u>
Projected Carryover Funds 6/30/00 per DPHHS	\$ 11,000,000
Unexpended Federal Fiscal 2000 Grant	38,000,000
DPHHS Planned Transfers to Childcare Development Fund (CCDF) and Title XX from Federal Fiscal 2000 Grant	(12,000,000)
Child and Family Services Division (CFSD) Unexpended Title XX Funds	700,000
"TANF Reserve"	(8,350,000)
Projected Assistance Expenditures Fiscal 2001	<u>(22,000,000)</u>
Projected Carry Over Funds 6/30/01	<u>\$ 7,350,000</u>
Projected Assistance Expenditures Fiscal 2002	<u>\$(22,000,000)</u>
Projected Carry Over Funds 6/30/02	<u>\$ (14,650,000)</u>
<b>Notes:</b>	
The chart above utilizes the estimated TANF carryover funds on June 30, 2000 as the starting point and calculates the balance of carryover funds on June 30, 2001 and 2002 assuming that:	
1) the unexpended balance of the federal fiscal 2000 grant becomes carryover funds;	
2) carryover funds are used to fund assistance payments;	
3) assistance payments remain constant at the fiscal 2000 level of \$22 million per year;	
4) a TANF reserve of \$8.35 million is maintained;	
5) DPHHS plans to transfer \$12 million to CCDF and Title XX;	
6) Based upon the projection received from CFSD approximately \$700,000 of Title XX funds will be not be expended in fiscal 2000. These Title XX Funds were a transfer from TANF to Title XX and if unexpended are transferred back to TANF funds and become part of the carryover.	

In fiscal 2002 carryover funds are projected to be \$14.6 million less than the amount needed to fund assistance costs. Possible courses of action which may be taken to provide funding for assistance costs in fiscal 2002 include:

1. a portion of the federal fiscal 2001 grant maybe left unexpended so that it becomes carryover funds that can be used to fund assistance payments;
2. a portion of the federal fiscal 2002 grant (current year grant funds) can be used to fund assistance costs; or
3. "TANF reserve" funds could be used to fund assistance payments.

Because the TANF Block Grant authorization expires at the end of federal fiscal 2002 (September 30, 2002) it might be beneficial to expend the "TANF reserve" funds for assistance in fiscal 2002 so that no TANF funds remain unexpended at the end of the block grant authorization

If expenditures and transfers of current year federal TANF funds are maintained at the level planned by DPHHS for fiscal 2000 and assistance costs are funded by carryover funds, \$19.5 million of the \$44 million in federal funds will be expended leaving \$24.5 million in federal fiscal 2001 block grant funds available for expenditure (Table 3). The amount of federal funds available for expenditure in fiscal 2002 is dependent upon what actions are implemented to fund assistance costs for fiscal 2002.

Table 3 Planned Annual Expenditure of TANF Grant Based Fiscal 2000 Planned Expenditures as Provided by DPHHS Assuming Assistance Payments are Funded by Carryover Funds	
Description	Amount
<b>Provided for Reference</b>	
Federal Grant Amount	\$ 44,065,078
Max transfer limit @30% (CCDF and Title XX see note)	13,219,523
Max transfer limit to Title XX @4.25%	1,872,766
<b>Planned Annual Expenditures of Federal TANF funds</b>	
<b>Transfers:</b>	
CCDF	\$ 5,000,000
Title XX	<u>1,872,766</u>
Total Transfers	<u>\$ 6,872,766</u>
<b>Expenditures: (not including assistance)</b>	
Child Support Enforcement Liaison	\$ 350,000
Energy Assistance	875,000
Family Support Activities	375,000
Transportation	250,000
Barrier Domestic Violence	100,000
Administration (includes systems and cost allocation)	4,462,801
Adult Basic Ed	100,000
Case Management	1,201,475
Expended by Child and Family Services (CFSD)	<u>4,956,816</u>
Total Expenditures	<u>\$ 12,671,092</u>
Total Transfers and Expenditures	<u>\$ 19,543,858</u>
Remaining Federal Grant Funds (note 1)	<u>\$ 24,521,220</u>
<b>Notes:</b>	
CCDF is the Child Care Development Fund	
Title XX is the Social Services Block Grant	
Note 1: This amount of federal grant funds is available for use ONLY if no current year grant funds are needed to fund assistance costs. Per Table 2 current year funds may be needed to fund assistance costs in fiscal 2002 if planned transfers to CCDF and Title XX are completed and the TANF reserve of \$8.35 million is maintained.	

The department has adjusted spending plans for fiscal 2000 based upon the final TANF rule, which was effective October 1, 1999. The department is utilizing TANF carryover funds for items which meet the federal definition of assistance and utilizing current year TANF and state MOE funds for all other items. This strategy must be carefully planned and monitored. The amount of current year funds remaining at the end of each year (which then become carryover funds) determines if there are adequate funds carried over to provide the costs of assistance. If the carryover funds are less than the costs of assistance payments it will be necessary to fund assistance from the current year grant.

During the course of designing and implementing TANF and state MOE funded programs it is important to remember that the state may be subjected to penalties for failure to comply with federal requirements and/or for the misuse of funds. The maximum total penalties which may be assessed in any given year is

25 percent of the TANF grant. Penalty provisions require that state spending be increased by the amount federal funds decrease. The Montana TANF grant is approximately \$44 million per year. Thus a 1 percent penalty would result in the reduction of the TANF grant by about \$440,000 and require that state spending be increased by \$440,000.

## Possible New Uses for TANF or MOE Funds

Many, if not most, of these innovative uses of TANF and state MOE funds may require changes to the state TANF plan and probably will require changes to statute and administrative rule as well. Therefore, development and implementation of programs or services to be funded by TANF or state MOE funds must be coordinated with the 2001 legislative session so that legislators may consider and act upon desirable and/or necessary changes in law to facilitate the increased flexibility in the use of funds which federal regulations now allow.

### Home Visitor and Preventive Services

Home visitor and preventive services can be provided in an effort to achieve the third purpose of TANF, which is to encourage the formation and maintenance of two-parent families. Services provided to fulfill this purpose of TANF are not restricted to only families meeting the criteria of needy. Services may be provided to any family regardless of need if the family meets the objective criteria utilized to determine eligibility for home visitor and preventive services.

Child and Family Services Division (CFSD) was appropriated \$3.2 million general fund for the 2001 biennium for in home and family reunification services. It is possible that all or some of these services could be funded with TANF. Utilizing increased TANF funds to provide home visitor and preventive services could result in decreased general fund expenditures for this program. Or, TANF funds could be used to expand the availability and volume of home visitor and preventive services.

### Payments to Relative Foster Parents

Missouri developed a "Grandparents as Foster Parents" program funded with TANF. Grandparents, caring for their grandchildren as foster parents, are eligible for the standard foster care payment and support services including respite and childcare. In fiscal 1998 Montana had 276 children in relative foster care placements at a cost of \$615,000 approximately 36 percent (or \$221,000 of the \$615,000) of foster care and subsidized adoption costs are general fund cost.

Currently a child living with a relative may be included in the family TANF grant. Because the current payment to a caretaker relative under FAIM is significantly less than the monthly payment made to foster parents through foster care funding, many relatives chose to become licensed foster parents. Increasing the TANF grant to relatives acting as foster parents could decrease foster care benefit expenditures. Additionally, because families would not have to become licensed foster parent in order to receive the TANF grant some savings in administrative costs might also be experienced.

## Adoption Subsidies

A state can use federal TANF or state MOE funds to provide adoption benefits and services to needy parents of an adopted child who is not eligible for federal Title IV-E<sup>8</sup> adoption assistance. The adoption established a parental relationship.<sup>9</sup>

CFSD received an appropriation for the biennium of \$3.4 million general fund and \$3.4 million federal funds to support the subsidized adoption program. It is estimated that approximately \$1.5 million of this general fund appropriation is utilized for match to draw federal funds. However, the remaining \$1.9 million is used to provide adoption subsidies for families not eligible for the federal Title IV-E adoption assistance program. It is possible that a portion of the families which receive general fund adoption subsidies could be needy families who would be eligible for a TANF funded adoption subsidy. It is also possible that the portion of the general fund spent on adoption subsidies for families meeting the definition of needy which exceeds the spending level for this program in 1995 could be counted toward the state MOE.

Use of adoption subsidy payments as state MOE would allow for a decrease in general fund expenditures elsewhere. If adoption subsidy expenditures are not used toward state MOE, TANF funds could be used to expand subsidized adoption services.

## Substance Abuse

The Addictive and Mental Disorders Division (AMDD) has a 2001 biennium appropriation of \$327,000 general fund to provide chemical dependency services to low-income children. Non medical substance abuse treatment may be funded with TANF funds and would fulfill the first purpose of TANF, to assist needy families so that children may be cared for in their own home or the home of relatives.

TANF funds could be used to expand non-medical substance abuse services or to save general fund spent for these services.

## Reinforcement of Work

A number of states have implemented programs that support and reinforce work. Among the services being funded by a variety of states as work supports are:

1. problem resolution;
2. workplace adjustment skills;
3. job coaching;
4. mentoring;
5. vocational and occupational training;
6. performance incentives;
7. transportation;

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<sup>8</sup> Title IV-E of the Federal Social Security Act provides for foster care and adoption services and payments for the maintenance of children in foster care or adoptive placements.

<sup>9</sup> Questions on TANF Policy Issues & TANF Data Reporting, [www.acf.dhhs.gov/programs/ofa/qapol.htm](http://www.acf.dhhs.gov/programs/ofa/qapol.htm)

8. services targeting the needs of the learning disabled;<sup>10</sup> and
9. refundable earned income tax credits.

Based upon DPHHS estimates, in fiscal 2000 \$1.4 million federal TANF funds and \$8.4 million general fund will be spent for services such as adult education, transportation, and employment and training services which reinforce work. Additionally, \$17.5 million of TANF funds have been transferred to the CCDF.

### Services to Non-Custodial Parent

The new TANF regulations allow the non-custodial parent to be included in the household for the purposes of providing services. California, Iowa and North Carolina are using TANF for programs to help low-income fathers pay child support and reconnect with their children through job training, employment counseling, life skills management and peer support.<sup>11</sup>

### Mental Health Services Plan (MHSP)

Some services such as non-medical mental health services including substance abuse screening, counseling and residential care (non-medical portions) may be funded with federal TANF funds. It is also possible that the MHSP could be considered a SSP for the purposes of state MOE so that some general fund spent in the MHSP could be counted toward state MOE. Projections of the amount that may be counted toward state MOE are not currently available and would be dependent upon a number of factors including:

1. the content of the TANF state plan;
2. how many families were served;
3. the amount and types of services provided to families;
4. if MHSP expenditures continue to be utilized to draw down other federal funds such as the \$1.2 million mental health services block grant, they cannot be used as state MOE for TANF; and
5. compliance with applicable federal and state rules and statutes.<sup>12</sup>

It is important to note that the decision to take a particular action will exclude the option of taking another course of action. That is, if MHSP is utilized as a SSP for state MOE purposes TANF funds cannot be used to fund MHSP services, nor can MHSP expenditures be used to draw down any other federal funds such as the mental health services block grant.

Use of MHSP as state MOE would allow for a decrease in general fund expenditures elsewhere. If MHSP expenditures are not used toward state MOE, TANF funds could be used to expand non-medical MHSP services.

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<sup>10</sup> "Challenges, Resources, and Flexibility: Using TANF Block Grant and State MOE Dollars", Tweedie, Reichert and Steisel, National Conference of State Legislatures, page 6 and 7, September 1999.

<sup>11</sup> "More than Just 'Welfare'", Jack Tweedie, National Conference of State Legislatures, State Legislatures, page 33, February 2000.

<sup>12</sup> Additional information regarding this possible use of TANF and TANF MOE funds can be found in the staff report "Funding Flexibility for Mental Health Services", March 7, 2000.

**Table 4**  
**Summary of Potential General Fund Savings**  
**Which Might be Attained Through Use of TANF Funds**

<u>Description</u>	Total Costs Biennial	Estimated General Fund Savings if a TANF Option is Used
Home Visitor and Prevention Services (note 1)	\$ 3,200,000	\$ 2,800,000
Relatives as Foster Parents (note 2)	\$ 1,230,000	\$ 442,800
Adoption Subsidies	\$ 1,900,000	unable to estimate
Substance Abuse	\$ 327,000	unable to estimate
MHSP	<u>\$ 22,600,000</u>	<u>unable to estimate</u>
<b>Total</b>	<u><u>\$ 29,257,000</u></u>	<u><u>\$ 3,242,800</u></u>

Notes:

1. Assumes \$400,000 is needed for match to federal family preservation grant and that all families currently receiving services would be meet the objective criteria used to determine eligibility for services.
2. Assumes all clients coded under relative foster care placement code in fiscal 1998 would be eligible for TANF funded payment at the foster care payment level. Assumes that 36% of foster care and subsidized adoption payments are funded with general fund. Does not attempt to project costs associated with:
  - 1) clients not coded as relative placements but who are with relatives; or 2) increases in caseload and the number of children placed with relatives since fiscal 1998. Per DPHHS data in January 2000, 457 children were placed in kinship care (paid and unpaid).

Table 4 contains a summary of potential general fund savings created by implementing the initiatives discussed in this report.

## Options

Changes to Montana's FAIM program and the use of TANF and state MOE funds will require a great deal of work. The LFC may choose to pursue a number of options regarding the use of TANF and state MOE funds. The options the LFC may which to implement are summarized below.

### Option 1:

Encourage the DPHHS and staff to pursue use of TANF and state MOE funds in the following order of priority.

- A. First priority - Proposals which could conserve general fund by counting existing expenditures toward MOE. The proposals discussed in this report which would meet this goal include:
  - a) use of MHSP expenditures toward state MOE; and
  - b) use of subsidized adoption expenditures toward state MOE.
  
- B. Second priority – Proposals that could reduce general fund expenditures. The proposals discussed in this report which would meet this goal include:
  - a) use of TANF funds for non-medical MHSP services (if this option is chosen option 1Aa cannot be implemented);
  - b) use of TANF funds to provide adoption subsidies (if this option is chosen option 1Ab cannot be implemented);
  - c) use of TANF funds to provide non-medical substance abuse services;
  - d) use of TANF funds to provide home visitor and preventive services; and,
  - a) use of TANF funds to pay caretaker relatives acting as foster parents at a payment rate comparable to foster care payment rates.
  
- C. Third priority - Proposals for new or expanded use of TANF funds including:
  - a) use of TANF funds for non-medical MHSP services (if this option is chosen option 1Aa cannot be implemented);
  - b) use of TANF funds for home visitor and preventive services;
  - c) use of TANF funds for substance abuse services for needy children discussed previously;
  - d) use of TANF funds to reinforce work; and,
  - e) use of TANF funds for services to non-custodial parents.

Option 2:

Direct the DPHHS to develop by a specific date, a spending plan which allocates a specified percentage or dollar amount of TANF and state MOE funds for each of the following purposes:

- A. maintenance of the FAIM program as it currently exists;
- B. funding for services and programs necessary to achieve FAIM Phase II;
- C. identification, development and implementation of usage of general fund expended in non FAIM programs for needy families which could be used toward state MOE including MHSP, adoption subsidy payments and other general fund expenditures;
- D. identification, development and implementation of usage of TANF funds to reduce general fund expenditures; and,
- E. new creative and innovative uses of TANF funds.

Option 3:

Provide the DPHHS and staff with additional ideas for TANF or state MOE fund usage to research.

Option 4:

Take no action.

Option 5:

The LFC may wish to request that the Children, Families, Health and Human Services Committee (CFHHSC) comment on the report and the options discussed in the report. The CFHHSC meets June 21, 2000.

## Summary

TANF funds are not infinite although the possible uses of those funds does seem infinite under the final TANF rules. As stated previously in this report, it is possible that as much as \$24.5 million in fiscal 2001 grant funds may be available for creative uses. However, the availability of funds for creative uses is dependent upon how assistance payments are funded. The goals for which these funds must be used have been set out in federal law. How these funds may most effectively and efficiently be used to achieve these goals is the challenge facing policy makers.

# APPENDIX

The attached article was taken from *Helping Families Achieve Self-Sufficiency*, a guide published by the U.S. Department of Health and Human Services, Administration for Children and Families, Office of Family Assistance